

MEDI-CAL LOCAL ASSISTANCE ADJUSTMENTS

PC2 - CHDP Gateway Medi-Cal Eligibles: Children who receive a health screen through the CHDP Gateway are eligible for two months of full-scope coverage during which time they may apply for ongoing Medi-Cal or Healthy Families coverage through the Single Point of Entry. The number of children and their parents that have followed through with a Medi-Cal application is lower than anticipated in the May 2004 Estimate. Average monthly eligibles in 2004-05 are expected to be 174,479 compared to 195,842 assumed in May 2004. This results in a decrease of \$14.2 million GF for 2004-05. In 2005-06, average monthly eligibles are expected to increase to 258,914 with a commensurate increase in costs of \$36.9 million GF.

PC9 - New Qualified Aliens (Use of Tobacco Tax funds): California law requires that legal immigrants receive the same services as citizens; however, federal rules specify that Title XIX Medicaid funding is only available for emergency services provided to qualified aliens who have been in the country for less than 5 years. Therefore, non-emergency services are funded with state funds. In 2004-05, \$54.4 million of this cost will be funded with Proposition 99 Tobacco Tax funds from the Hospital Services, Physician Services and Unallocated Accounts, thus reducing GF expenditures. In 2005-06, \$32.8 million will be funded with Tobacco Tax funds, increasing GF by \$21.6 million.

PC24 - Sensipar: In April 2004, the Federal Drug Administration approved, and the DHS added coverage for the drug Sensipar that is used in the treatment of patients on dialysis or with parathyroid carcinoma. In October 2004, Sensipar will be placed on the Medi-Cal List of Contract Drugs and Treatment Authorization Requests will no longer be needed. The cost for this drug is expected to be \$12.4 million GF in 2004-05 and \$28.2 million GF in 2005-06.

PC31 - State Children's Health Insurance Program (SCHIP) Funding for Prenatal Care: In order to maximize revenues, the Governor's Budget proposes that the DHS file a State Plan Amendment (SPA) in SCHIP to claim 65% federal funding for prenatal care that is currently only funded by GF. The SPA will be filed by June 30, 2005, in anticipation of authorizing language in the 2005-06 Trailer Bill. This will allow SCHIP funding to be claimed for both 2004-05 and 2005-06, resulting in savings in 2005-06 of \$191.1 million GF.

PC32 - Fluoride Varnish: Effective January 1, 2006, fluoride varnish will become a benefit that can be provided by medical providers who routinely see young children. These treatments are expected to reduce tooth decay by 69%. The savings from fewer dental services is expected to be greater than the cost of the treatment. Savings in 2005-06 is expected to be \$0.1 million GF and to increase in future years.

PC35/36 - Medicare Modernization Act (MMA) Medicare Drug Benefit and PC 87 MMA Phased-Down Contribution for Part D: The Medicare Modernization Act of 2003 (HR 1) implements the Medicare Part D drug program that provides drug benefits to all Medicare enrollees, including those that are Medi-Cal beneficiaries, called dual eligibles, effective January 1, 2006. Due to this coverage, the federal government will no longer provide federal financial participation for Medicaid coverage for dual eligibles. In addition, the states must reimburse the



federal government a portion of savings gained from not providing these drugs. The phased-down contribution, or “clawback”, is 90% of the savings in 2006, based on a formula set in HR 1, reduced by 1 2/3% per year until it reaches 75%. Expenditures for drugs provided to dual eligibles are 55% of total Medi-Cal drug expenditures. The savings from no longer providing Part D drugs to dual eligibles are estimated to be \$746.8 million GF (PC 35 and 36) in 2005-06. The cost of the “clawback” is estimated to be \$646.6 million GF (PC87) in 2005-06. Rebates will continue to be received after January 1, 2006, for drugs provided to dual eligibles prior to that date.

PC41 - Two Plan Model: Medi-Cal costs for beneficiaries enrolled in Two Plan Model managed care plans are expected to be \$17.5 million GF lower in 2004-05 than expected in the May 2004 Estimate. The reduction is due to the change in projected eligibles resulting from Los Angeles County's reconciliation of its LEADER system with MEDS in late 2003-04. In 2005-06, costs are expected to increase by \$42.3 million due to an increasing trend in annualized projected eligibles in the following two categories: Supplemental Security Income/State Supplementary Payment (SSI/SSP) Cash Grant - Disabled (69,000) and Medically Needed - Families (452,000).

PC42/46 - County Organized Health Systems: The 2004-05 Budget Appropriation funding for County Organized Health Systems (COHS) was based on the assumption that all persons eligible under the 1931(b) Program and Poverty Programs for Children and Pregnant Women were eligible for coverage in the COHS. A review of COHS eligibility, done on an aid code basis, provided information that undocumented aliens in these programs are not COHS eligible. It also clarified that children included in the counts of eligibles for the Medically Indigent Children Program who are eligible for pre-enrollment coverage under the CHDP Gateway are not COHS eligible. Excluding these eligibles from the budget projections for the COHS results in a reduction of \$66 million GF in 2004-05. Based on expected caseload growth, costs in 2005-06 are expected to be \$26.6 million GF higher than costs in 2004-05.

PC54 - Quality Improvement Assessment Fee: The 2004-05 Budget Appropriation assumed that the application of a Quality Improvement Assessment Fee for managed care plans other than COHS would begin in January 2005. Under this proposal, the managed care plans would pay a quality improvement assessment fee of 6% of their gross revenues from their Medi-Cal lines of business. This fee would be paid directly to the General Fund. The cost of the fee would be reimbursed through a Medi-Cal rate increase, which would also provide an additional rate increase of approximately 3% to the plans. Due to the need for federal approval and the need for the plans to make changes in the way they do business, the implementation of the fee has been moved forward to July 2005. This results in a savings to Medi-Cal of \$78.5 million GF in 2004-05, since the increased payment to the plans to cover the cost of the fee will not be made. The loss to the State GF in 2004-05 due to the fee not being collected is \$12.5 million GF. The cost to Medi-Cal in 2005-06 for the rate increase for the managed care plans is expected to be \$169.5 million GF. Net savings to the State GF resulting from the fee is expected to be \$37.7 million GF.



PC58 - Buy-In: Costs for paying for the Medicare Part A and Part B premiums for persons eligible for Medi-Cal are expected to increase by \$155.6 million GF in 2005-06. This increase is driven by the continued growth in the number of aged and disabled persons eligible for Medi-Cal, the

significant premium rate increases that will be given in January 2005 (\$343 to \$375 for Part A and \$66.60 to \$78.20 for Part B), and expected premium rate increases in January 2006.

PC60 – Skilled Nursing Fee (SNF) Rate Changes and Quality Assurance (QA) Fee: AB 1629 (Chapter 875, Statutes of 2004) provides for a cost of living increase for skilled nursing facilities for 2004-05, the establishment of a facility specific rate methodology effective August 2005, and the imposition of a quality assurance fee for skilled nursing facilities effective August 2004. Costs to Medi-Cal for the cost of living increase and the new rate methodology are expected to be \$99.0 million GF in 2004-05 and \$259.5 million GF in 2005-06, an increase of \$160.5 million GF from 2004-05. An appropriation of \$106.8 million GF was provided in the bill. The fee, paid to the State General Fund, is expected to generate savings of \$120 million in 2004-05 and \$257 million in 2005-06.

PC109 - New Therapeutic Category Reviews/Rebates: The Budget Act of 2003 included funding to add staff to perform new annual drug therapeutic category reviews (TCR). Savings are expected to increase by \$6.9 million GF in 2004-05 and \$30.8 million GF in 2005-06 mainly due to the addition of a fifth TCR for proton pump inhibitors. Savings from this TCR are expected to begin in March 2005.

PC111 - Anti-Fraud Expansion for FY 2004-05 and PC 113 Anti-Fraud Expansion for FY 2003-04: In an effort to accurately identify the outcome of its anti-fraud activities, DHS has begun building a data base to track, on a provider-specific basis, the changes in billing patterns that have resulted from the anti-fraud work that has been done. The data that has been developed to date show that the number of providers sanctioned in 2003-04 was lower than originally estimated and that, in many cases, providers had actions taken against them in previous years as well. Based on this provider-specific data, the savings expected in 2004-05 from the anti-fraud activities in 2003-04 were reduced by \$89 million GF. The data also provide a better basis for estimating the impact of the anti-fraud activity in 2004-05, resulting in a reduction of savings of \$46.3 million GF from the savings assumed in the 2004-05 Budget Appropriation. In 2005-06, savings from the 2003-04 efforts is expected to increase \$0.2 million GF and savings from the 2004-05 efforts is expected to increase \$55.9 million GF, as the full impact of these efforts is seen.

PC115 - Delay Checkwrite June 2005 to July 2005: In 2004-05, the last Medi-Cal checkwrite of the fiscal year will be delayed into the next fiscal year. In 2005-06, costs will increase by \$151.0 million GF, as the DHS returns to 52 checkwrites in the year.

Base - Dental: DHS currently contracts with Delta Dental for provision of dental services to Medi-Cal beneficiaries. Delta Dental and DHS are in the process of finalizing the rate amendment for the 2004-05 year. A reduction in rates is expected due to lower costs that have resulted from the limitations on covered services passed initially as part of SBX1 26, (Chapter 9, Statutes of 2003, First Extraordinary Session). These limitations require pretreatment radiographs for restorations in excess of four a year, limitations on laboratory-processed crowns for posterior teeth, and a 41% reduction in rates for subgingival curettage and root planing. The reduced rates are expected to result in savings of \$43.2 million GF in 2004-05 and \$46.7 million GF in 2005-06.



Base – July 2004 Delayed Checkwrite: As part of DHS' anti-fraud effort, in July 2004 a change was made in claims processing to delay all checkwrites by one week to allow more time for review of provider claims prior to payment. This delay is reflected in the base data used to build the November 2004 Estimate. In 2005-06, costs will increase by \$151.0 million GF, as the DHS returns to 52 checkwrites in the year.

Base – Aged, Blind and Disabled: Base costs for the aged, blind and disabled are expected to increase by \$380.6 million GF in 2005-06. The increase is the result of both ongoing growth in the number of eligibles, 11% growth for aged and disabled Medically Needy, with 1% to 2% growth in SSI/SSP recipients, and the increase in costs for the services these eligibles receive, the most significant increase being in pharmacy costs.

Base - Families and Children: Base costs for the categories of eligibility for families and children are expected to increase by \$92.9 million GF in 2005-06. This is mainly due to expected growth of 5% in several Medi-Cal Only categories, including 1931(b), and increasing benefit costs, particularly for drugs.

County Administration: County Administration costs are expected to decrease by \$11.7 million GF in 2004-05, mainly due to less growth in caseload than assumed in the 2004-05 Budget Appropriation. In 2005-06, costs will increase by \$33.0 million GF due to expected cost of doing business increases, reductions in CalWORKS cash grants which will shift eligibles from CalWORKS to Medi-Cal Only, additional Medi-Cal/Healthy Families Bridge cases due to performance standards, determination of premiums for Medi-Cal beneficiaries under the provisions of Medi-Cal Redesign, increases in Medi-Cal case management costs for the California Children's Services Program, and expected contract costs for the DHS' efforts in disease management.

Fiscal Intermediary: Costs for the fiscal intermediary are expected to decrease by \$5.8 million GF in 2004-05 and increase by \$8.3 million in 2005-06.

All Other: All other changes amount to a decrease of \$5.1 million GF compared to 2004-2005. These changes include the net impact of all other changes not listed above.